

Section 3

Unreported Income

Initiatives to Identify Unreported Income

One of the Internal Revenue Service's priorities is to identify individuals who are filing tax returns but not reporting all taxable income. In addition to increasing the resources devoted to this key area, the IRS has implemented a broad strategy to address these cases.

What should a person do who has been underreporting income?
Immediately file amended returns!

Document Matching

One part of the strategy is the document-matching program. Payers filed over 1.4 trillion information reports for tax year 2002 (Forms 1099, W-2, K-1, etc.). The IRS matches all information reports to the recipient's return to determine if the income was included. In 2004, the IRS made almost 2 million contacts with taxpayers whose returns appeared to be missing some income based on a comparison of reports from payers resulting in tax assessments of \$3.6 billion. At least as many contacts are expected in 2005.

Audit Selection Tools

The IRS strategy also includes methods to address the issue of unreported income not identifiable through reports from payers, for example, the gross receipts of a business. The IRS cautions the public that omissions of income will be detected. Improvements to audit selection tools are helping the IRS better pinpoint returns likely to have unreported income.

Each individual return processed is assigned a Discriminate Index Formula (DIF) score rating the probability of inaccurate information on the return. In 2006 the IRS expects to update the formulas that compute DIF scores using data gathered through the recently completed National Research Program Individual Reporting Compliance Study.

Partnering with Other Agencies

In addition to document matching and DIF scores, the IRS is increasingly using techniques that involve partnerships with other government agencies. Examples of information already being shared or currently being explored include state and local tax return information, audit reports, and asset information.

What can you do?

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What is a person to do who has been underreporting income? **They should immediately file amended returns!** The IRS or a tax professional can provide guidance. The risk of being detected by the IRS is increasing, and when some persons fail to comply with the tax laws, the consequence is that law-abiding taxpayers pay more than their fair share.

IRS Assistance

- [Tax forms, publications, and information](#)
- [Local office addresses](#)
- Tax law and account questions: 800-829-1040
- Business and specialty tax questions: 800-829-4933
- Tax forms and publications: 800-829-3676

"Taxes are what we pay for a civilized society"
Supreme Court Justice Oliver Wendell Holmes